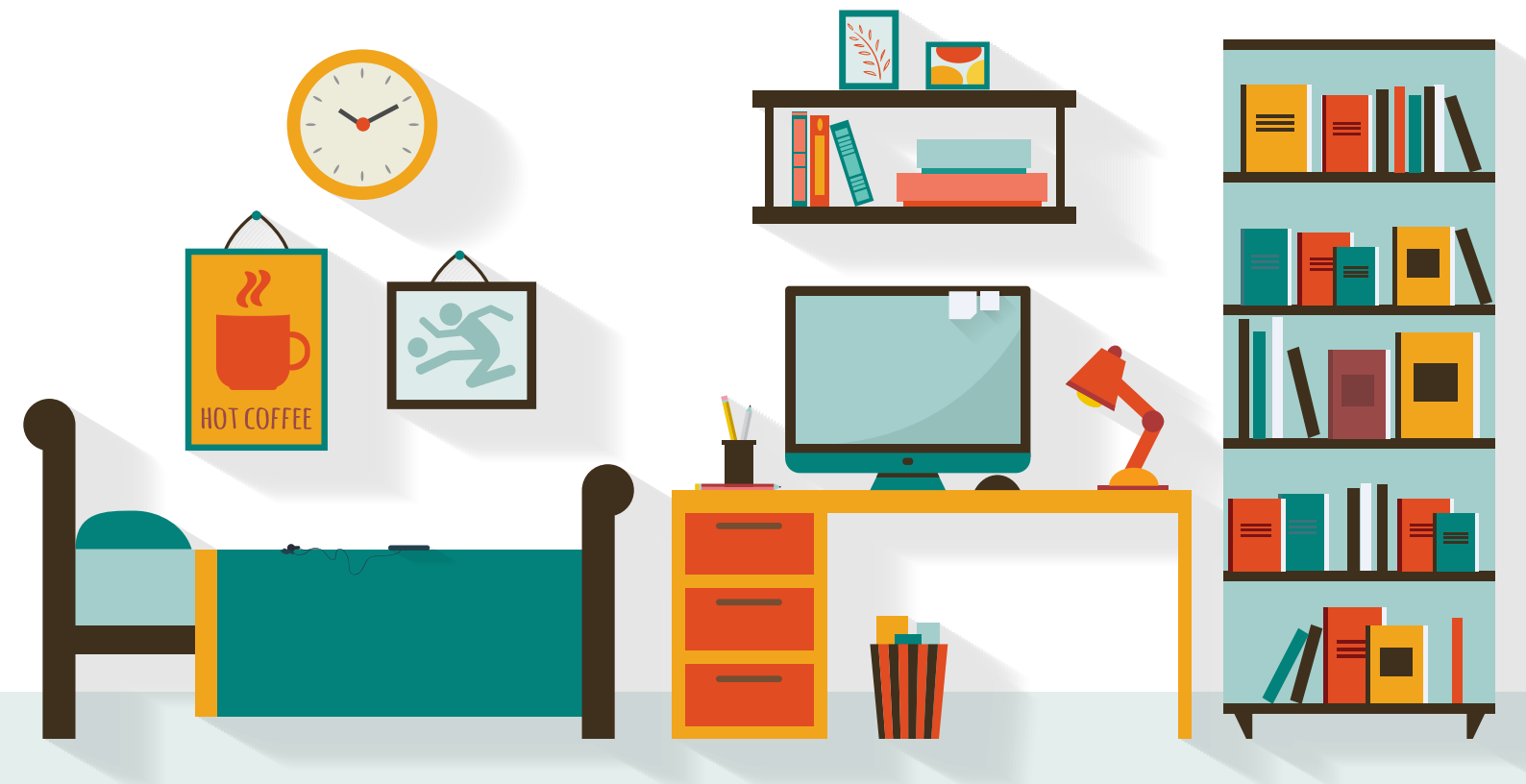


2016: Trends in the student accommodation sector

Setting the building blocks for a fruitful future



Introduction

As the 2015-16 academic year is now well underway and we approach the end of Q1 2016, **Paul Leamy** and **Alistair Watson** take a look back at 2015, the most buoyant year for the UK purpose-built student accommodation sector to date, and look ahead at what the rest of 2016 may hold for this fast growing sector.

The UK purpose-built student accommodation sector continues to attract significant investment, both from within the UK and from foreign investors, with 2015 levels reportedly exceeding the volume of investment in the US student housing market for the first time. In this briefing, drawing on the market analysis of some of our industry contacts, we reflect on how far the sector has come and take a look at some of the key themes likely to emerge over the coming year.

What are the opportunities?

In 2015, student accommodation was being traded frequently but is the market exhausted of opportunity or do assets remain for those ready and able to move quickly?

According to Bilfinger GVA:



“2015 was the strongest year yet in terms of investment activity. In the year to September, over 40,000 beds had been sold for a total of over £4.3 billion, which was £1

billion more than the last three years combined.”

Bilfinger, GVA, Student Housing Review, Autumn 2015

In 2015, we saw a number of high profile portfolio deals, including (amongst others):

- ▶ **Pure Student Living** – £532m acquisition of the 2,170 bed Pure Student Living platform by LetterOne from The Carlyle Group
- ▶ **Liberty Living** – £1.1bn acquisition of the 16,822 bed Liberty Living platform by Canada Pension Plan Investment Board (CPPIB) from Brandeaux Student Accommodation Fund
- ▶ **Nido Portfolio** – £600m acquisition of the 2,385 bed Nido portfolio by Greystar from Round Hill Capital
- ▶ **Westbourne Portfolio** – £500m acquisition of the 5,866 bed Westbourne portfolio by Greystar from Knightsbridge/Oaktree
- ▶ **Student Castle** – £330m acquisition of the 2,153 bed portfolio by CPPIB from Student Castle

Given the investment strategies of the acquiring parties, it is unlikely that the assets in those portfolios will be traded again in the foreseeable future.

In addition to the portfolio sales and acquisitions, 2015 also saw a large volume of single asset transactions, with the **Empiric Student Property REIT** particularly active in that space, accumulating a mix of operational assets and assets under development. At the end of December 2015, their rapidly growing portfolio comprised 5,686 beds across 58 assets in 26 cities. This included 39 operating properties, five forward commitments, 11 forward funded assets, and three developments.

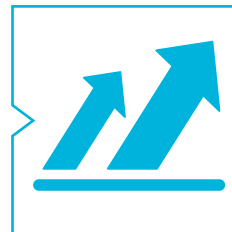
So, given the large number of deals in 2015, is the sector overheated? We believe not, as at the start of 2016, there were still a number of other assets up for grabs.

But who is taking advantage of these assets for sale? The market is changing rapidly and new entrants are coming to the market at a staggering rate. At the beginning of March 2016, new entrant, **Mapletree Investments**, the property arm of Singapore’s state investment fund Temasek, dived into the sector with a £417m acquisition of the Mansion Student Accommodation Fund’s Ardent Portfolio, representing their first UK acquisition in the sector.

In addition, with Property Week reporting on 25 February 2016 that Brookfield Property Partners is “close to making its first global investment in student housing with the acquisition of Avenue Capital’s UK portfolio for around £420m”, it appears that the remaining portfolios on the market are being snapped up fast.

Accordingly, we believe 2016 will see more single-asset deals in relation to existing stock. The multi-asset deals in 2016 are likely to be focused on the pipeline of new build developments coming to the market – resulting in increased competition for the new stock being delivered by key developers in the market.

It would appear that CBRE agree:



“There will be healthy competition for good quality single assets, with institutions and new portfolio operators all looking to grow further.”

CBRE Research, United Kingdom, Real Estate, Market Outlook, 2016

How many beds are out there?

Figures presented by JLL at the Property Week Student Accommodation Conference in December 2015 projected that **25% of circa 220,000 beds** would have been traded in 2015 by the year end, which means there are still a significant number of assets that may come to the market in 2016.

In his presentation, Philip Hillman of JLL indicated that there were around **14 bids and £7bn** of money chasing the Pure Student Living portfolio that was sold to LetterOne in 2015.

This gives an indication of the level of investor demand that is likely to continue to chase the right deals in 2016.

However, increased investor demand results in increased competition for good stock in the right locations:



“New players of considerable size are entering the market, establishing large portfolios and market share in a short period of time. These investors are mainly from overseas with

US, Canadian, Middle East and Chinese funds all actively looking to expand in the sector.”

Bilfinger, GVA, Alternative Investment Sectors, Evolving Markets, 2016

“With a wide spectrum of global capital looking at PBSA and recent portfolio trades going to new entrants, it is likely demand will continue to be strong and that we will continue see yield stability in the sector.”

Savills, 2016

Is London still viable?

The demand for new stock in core university locations is also likely to continue. However, new development in London is likely to be further fettered in 2016 and beyond by the anticipated adoption of draft Interim Supplementary Planning Guidance. This will require an element of affordable student accommodation to be provided in new developments.

The Guidance states that the element of affordable student housing provided in a development should be “the maximum reasonable amount subject to viability”. Conflicting views of developers and planning officers as to what is “viable” may seriously impact on the number of new schemes coming through the planning process.

Coupled with high levels of Community Infrastructure Levy (CIL) and competing land uses, a slowing of the development pipeline in London seems inevitable. As a consequence, we believe there will be an increased focus on new development in other regional University towns.

“On the supply side, it is getting harder to secure planning permission for new developments.”

CBRE Research, United Kingdom, Real Estate, Market Outlook, 2016



“Looking ahead, it is likely that London will continue to be an attractive city for students from across the UK and around the world.

However, there is the risk that prospective students will be put off by the cost of living in the capital.”

Savills, Spotlight, UK Student Housing, 2015

Regional opportunities?

In some other key regions, we may see the local planning authorities attempting to direct development into specific locations. For example, a review into student accommodation in Liverpool found there should be no limits on new student accommodation developments, but called for student accommodation developments instead to be directed towards “zones of opportunity”. This approach is in part a response to concerns expressed by some local residents regarding the perceived negative impact that a high concentration of student numbers has on local communities.

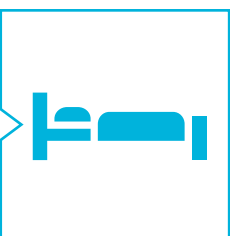
Aspirations of the planning officers to shift new development into untested locations will need to be aligned with investors’ aspirations to achieve projected levels of student demand and rents that will create sufficient investment value. Such an alignment may be a key driver of new development.

“The number of beds expected to be completed post 2016 is much lower [than 2015 levels] and it remains to be seen whether this reflects a lack of new development or a lag in sites coming through the planning system.”

Savills, Spotlight, UK Student Housing, 2015

“Cities with large full-time student populations, but a small number of purpose-built beds, such as Cardiff and Glasgow, stand out as locations for investors and developers to target.”

Bilfinger, GVA, Student Housing Review, Autumn 2015



“Bath, Brighton, Bristol, London, Manchester and Oxford are among some of the UK university cities providing the best development potential for 2016 reflecting both strong demand and a need for more supply.”

Savills, 2016

Where is the growth and innovation?

In large conurbations, and particularly in London, as well as Bath, Bristol, Oxford and Cambridge there is a significant growth in demand for student accommodation which is also affordable. In response to that demand, planning authorities are increasingly more focused upon ensuring the entire market is provided for rather than just the high end of the student accommodation market. Given that a lot of University owned stock is becoming obsolete, perhaps there is a need for a new type of product in the sector.



“The UK is an expensive country in which to study and live ... in particular, stands out as exceptionally costly. Purpose-built accommodation here has been successful

in targeting premium rents, but there is huge potential to expand into lower value markets. The challenge sits with viability, given high land values and competing use classes.”

Savills, Spotlight, World Student Housing, 2015-16

“In some instances, purpose-built accommodation like university halls of residence, are coming towards the end of their useful life and are in need of redevelopment.”

Bilfinger, GVA, Student Housing Review, Autumn 2015

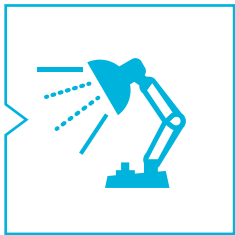
Will “flat pack” homes provide the solution?

Off-site construction may provide one solution to address the need for affordable student accommodation.

On 4 March 2016, Property Week reported on Legal & General’s plans for “*the largest modular housing factory in the world*” at a site 15 miles east of Leeds which will facilitate production of thousands of new homes a year.

We see similar approaches to this as being one of the significant opportunities in the student accommodation sector over the next 12 months – pop-up, modular developments which are able to be built out more quickly and at a lower cost than developments constructed using traditional methods.

With the continued growth in student numbers, and the need for universities to continue to provide appropriate accommodation, the speed of delivery of such accommodation remains paramount.



“While the number of students using university-owned accommodation has increased by just 3% since the start of the 2007-08 academic year, the use of

privately-operated student accommodation has increased by 123%, although it should be noted that this increase is from a very low base. The total proportion of these two types of purpose-built student accommodation accounts for only 28% of students.”

Bilfinger, GVA, Student Housing Review, Autumn 2015

Taylor Wessing’s predictions for 2016

This briefing has highlighted that the student accommodation sector is rapidly changing. Whilst some still refer to the sector as an ‘alternative’ asset class, many others would now argue that it is as mainstream as retail, office, and industrial.

2015 was a busy year with assets trading hands at a record breaking rate, but what does the Taylor Wessing team predict for 2016? In a nutshell, we think:

- ▶ Fewer portfolio transactions will come to market but a large volume of single-asset deals will remain.
- ▶ Caution will emanate from some investors pending the outcome of the EU referendum and potential “Brexit” but other investors will see this as a window of opportunity due to the reduced competition.
- ▶ Increased interest in the sector from across the globe will increase competition further driving down yields.
- ▶ Increased tightening of planning controls on new development will be seen with planning authorities focusing on provision of affordable student accommodation and seeking to direct new development towards “zones of opportunity”.
- ▶ Emergence of alternative construction methods as part of the wider housing supply issue will provide significant opportunities for growth.

In essence, whatever your role in the student accommodation sector – investor, developer, operator or lender, we believe the returns are there to be had for the right deals. The market is rapidly shifting but we believe 2016 still holds a lot of opportunity for those able to move quickly enough. Watch this space.

About the team

Taylor Wessing's student accommodation team has some of the most wide-ranging experience in the sector. As a market leader, our collaborative team of specialists advise on real estate development and investment, tax and corporate-led work in addition to planning and environmental law, construction and finance.

Our clients can call upon lawyers from an integrated global network across the UK, Germany, France, The Netherlands, the CEE, Dubai, China, Singapore and Indonesia. With growing interest from overseas investors, our ability to respond to client demand from around the world creates huge benefit in bringing together mutually beneficial opportunities for our clients and contacts operating in this field.

Our team believes in offering an integrated client service. Designated partner-led teams are created for each client and emphasis is placed on the delivery of commercial, practical and pro-active advice at all levels. We believe in identifying core issues at an early stage and proposing creative solutions.

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